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REPORT 1969 ANNUAL REPORT 1969 ANNUAL REPORT 1969 ANNUAL REPORT 1969 ANNUAL REPO

KENTING

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HEAD OFFICE KENTING LIMITED

P.O. Box 187
Toronto-Dominion Centre
Toronto, Ontario

DIVISIONAL OFFICES

BIG INDIAN DRILLING DIVISION
1318 - 9th Avenue S.E., Calgary, Alberta
Telephone 265-6480

CANADIAN WELL SERVICES AND TANK DIVISION
510 - 5th Street S.W., Calgary, Alberta
Telephone 263-4970

KENTING EARTH SCIENCES (EASTERN) DIVISION
67 Richmond Street West, Toronto, Ontario
Telephone 360-1500

KENTING EARTH SCIENCES (WESTERN) DIVISION
524 - 11th Avenue S.W., Calgary, Alberta
Telephone 263-1701

KENTING AVIATION DIVISION
P.O. Box 6024
Toronto A.M.F., Ontario
Telephone 677-6721

KENTING LIMITED (Divisional Operating Office)
700 - 6th Avenue S.W., Calgary, Alberta
Telephone 263-2980

KENTING PETROLEUM GEOPHYSICS DIVISION
6004 Centre Street S., Calgary, Alberta
Telephone 252-6696

KLONDIKE HELICOPTER DIVISION
Hangar No. 1, McCall Airport
Calgary, Alberta
Telephone 277-8526

PETROLIA DRILLING DIVISION
700 - 6th Avenue S.W., Calgary, Alberta
Telephone 263-2980

KENTING OILWELL DRILLING DIVISION
505 - 8th Avenue S.W., Calgary, Alberta
Telephone 265-5680

KENTING OFFSHORE DIVISION
700 - 6th Avenue S.W., Calgary, Alberta
Telephone 263-2980

KENWELL ENGINEERING DIVISION
510 - 5th Street S.W., Calgary, Alberta
Telephone 264-3635

PALLISTER & ASSOCIATES DIVISION
524 - 11th Avenue S.W., Calgary, Alberta
Telephone 263-1701

OPERATIONS OFFICES

Toronto; Calgary; Edmonton;
Whitehorse, Y.T.; Fort Smith, N.W.T.;
Hay River, N.W.T.; Vancouver.

DIRECTORS

J. C. ANDERSON Vice-President and General Manager Allied Equipment Ltd.	Calgary
G. F. COOTE President Kenting Exploration Services Ltd.	Calgary
J. K. FARRIES President Canadian Well Services and Tank Co. Ltd.	Calgary
D. J. FLEMING Vice-President, Marketing Kenting Limited	Calgary
J. R. HUGHES Former Chairman Royal Securities Corporation Limited (retired)	Montreal
C. C. HUSTON President, C. C. Huston & Associates	Toronto
D. N. KENDALL President, Kenting Limited	Toronto
D. A. McINTOSH, Q.C. Partner, Fraser Beatty & Co.	Toronto
J. H. MOWBRAY JONES Director, Bank of Montreal	Montreal
A. E. PALLISTER Division Manager, Pallister & Associates	Calgary
A. F. SOUTAR President, Field Aviation Company Limited	Toronto
J. W. STRATH Vice-President and General Manager, Kenting Limited	Calgary
A. VANDEN BRINK President, Petrolia Oilwell Drilling Ltd.	Calgary

OFFICERS

D. N. KENDALL
President

J. W. STRATH
Vice-President and General Manager

G. F. COOTE
Vice-President, Science & Technology

D. J. FLEMING
Vice-President, Marketing

G. D. ROSS
Vice-President, Finance

J. W. CHURCHILL
Secretary

TRANSFER AGENTS

Royal Trust Co.

AUDITORS

Price Waterhouse & Co.

SOLICITORS

Fraser Beatty & Co. – Toronto
Howard Moore Dixon Mackie & Forsyth – Calgary

STOCK EXCHANGE LISTING

Toronto Stock Exchange

TO THE SHAREHOLDERS

Kenting DC 4 ice patrol supported historic Manhattan voyage through Arctic waters.

General Operations

Operation of all divisions except Kenting Offshore continued successfully in 1969, with significant earnings improvement in several, and none declining. A third drilling division was formed and all three (Petrolia, Big Indian and Kenting Oilwell Drilling) operated profitably. Huntec was divided into two divisions, new management was brought in, and the division appears to have been turned around. Pallister & Associates continued to develop and sell northern exploration concepts, and to provide employment for other Kenting Divisions. Kenting Petroleum Geophysics had a moderately successful year.

Klondike Helicopters had an excellent year, and Kenting Aviation continued its steady progress. Canadian Well Services increased volume slightly, but concentrated successfully on improvement in job costing methods with the object of increasing profitability.

Earnings and Net Income

Gross revenue in 1969 was $21,419,000 compared with $13,856,000 in 1968.

Earnings from all sources including special items for the year ended 31st December 1969 amounted to $1,122,000 before income taxes, compared with $907,000 in 1968. From this must be deducted $29,000 for current income taxes payable, $450,000 for deferred income taxes and $146,000 for preferred dividends (accrued and paid) leaving $497,000 or $1.54 per share as the earnings on the 323,000 common shares outstanding on a weighted average basis. This compares with $1.11 per share in 1968.

Net income from operations before taxes amounted to $700,000. It should be noted that this was after writing off a loss on Operation Geoquest of $551,000 plus absorbing a loss of $536,000 from the Offshore Division. It can be seen, therefore, that in aggregate the balance of the company's operations had a good year.

Kenting Offshore

With the assistance of a ship building subsidy from the Federal Government an offshore drilling vessel incorporating the latest technology was built in a Canadian yard. The company meanwhile had negotiated a three year contract with an oil company to drill in Lake Erie. This was due to start in June 1969. Financing for the vessel came partly from the company's cash reserve and partly from a loan from a Canadian bank. The total investment exceeded $3,400,000.

The rig had been designed to drill in 150 feet of water. Available information, mainly geophysical, indicated that there would be 15 feet of mud before reaching a firm base. In practice all sites attempted proved to have 90 feet or more of soft mud and the rig was unable to "jack-up".

An alternative contract in Canada was not available and it became necessary to look elsewhere. The company was offered, and accepted, a contract from Midbar Ltd., a subsidiary of King Resources Inc. of Denver, Colorado to drill in the Gulf of Suez.

At the time the contract was signed the company was assured that there was a tacit understanding between the Israelis and Arabs that oil exploration in the Gulf of Suez would not be interfered with by either side.

Since then, despite the fact that the political situation has deteriorated, these oil activities are continuing unmolested.

However, in attempting to move the Kenting offshore rig to its assigned area of operation in the Gulf of Suez, the company has been frustrated on several fronts. Several attempts were made to impede the progress of the rig, and more recently deliberate sabotage of the rig occurred in an African port. The rig was fully insured against this eventuality.

A condition of Kenting's contract is that it will not drill on any locations without first obtaining "from the operator all necessary permits or permissions to enter upon and operate on the drilling sites". To date Midbar has not designated any drilling locations in the Gulf of Suez or any alternate areas of operation as provided for in the contract. Kenting has made no arrangements for tow of the rig beyond Ethiopia.

Financially the Offshore Division has also raised major problems. The original rig was designed to drill in Lake Erie. In order to take on the Midbar contract it had to be modified for the peculiarities of that area. Demobilizing for Lake Erie plus this additional capital investment involved an unbudgeted

Canadian Well Services operates oilfield tank batteries consisting of treater and three oil storage tanks.

Canadian Well Services uses gas test units for measuring and evaluating gas wells.

expenditure of about $1,400,000 which came out of the company's working capital.

It can be seen from the above that the Offshore Division represents a financial load for the company which could inhibit the growth of the other divisions. It may well be, therefore, that the company will dispose of this Division if suitable terms for doing so can be arranged. In any case the management is taking all possible steps to ensure that the Offshore Division will not negatively affect 1970 earnings.

Working Capital

As a consequence of the above it can be seen from the year end audited statements that the company had an overall negative working capital of $185,000. The major change was an increase in the debt load due within one year.

Share Offering

Your directors have therefore considered it prudent to increase working capital through issuance of shares. This was the subject of a letter to the shareholders sent out on March 23, 1970.

As explained in that letter, the rights offering was made on the basis that each shareholder of record on March 17th, 1970 could purchase one common share of Kenting Limited at $13.00 for each five shares held. Thus the company was issuing approximately 66,000 additional shares resulting in about $800,000 in cash being placed in the treasury. Coupled with the rights offering there was a firm underwriting agreement with Wisener and Partners Ltd. under which they agreed to subscribe for the number of shares not taken up under the rights issue up to the full 66,000, so that the company is guaranteed the realization of its objective. These new monies should be in the hands of the company before the end of April, 1970.

Operation Geoquest

The company's quarterly reports described the problems and action which the company was taking in relation to Geoquest. In summary Geoquest was an exploration program in the Northwest Territories conducted on behalf of some 20 oil companies and involving the use of six divisions of the company. It was 75% funded by the oil companies participating. The company invested the balance but owns the data plus $800,000 in disposable work credits. This data has resale value for many years to come.

During 1969 sales of Geoquest data were below expectations, largely due to the sudden focus of attention and budgets on areas further North following the Prudhoe Bay discovery. Your directors considered it prudent therefore to write off to zero the investment in Geoquest in the 1969 accounts. Thus all future sales accrue in full to earnings. This write-off amounted to $551,000 pre tax.

Following Geoquest, the company inaugurated Operations Arcticquest and Polarquest, both of which have been well supported by the oil industry. These operations are structured on a basis different to Geoquest and do not involve the company in risk exposure.

Acquisitions and Dispositions

No acquisitions were made in 1969 and no active negotiations for acquisitions are currently in progress.

During the year the company sold all except 30,000 of its shares in CDP Computer Data Processors Ltd. Tamarack Petroleums Ltd., which held an override on certain gas acreage in the Strachan area, was also sold in exchange for 257,000 shares of Silver Arrow Exploration Ltd. This exchange is explained in detail in Note 2 to the Financial Statements.

Corporate Changes

Three new directors will be proposed for the Board at the forthcoming Annual Meeting. They will be Mr. Percy Sandwell of Sandwell and Company, Mr. Simon Fraser of Hambros Bank Limited and Mr. Robert Wisener of Wisener and Partners Company Limited.

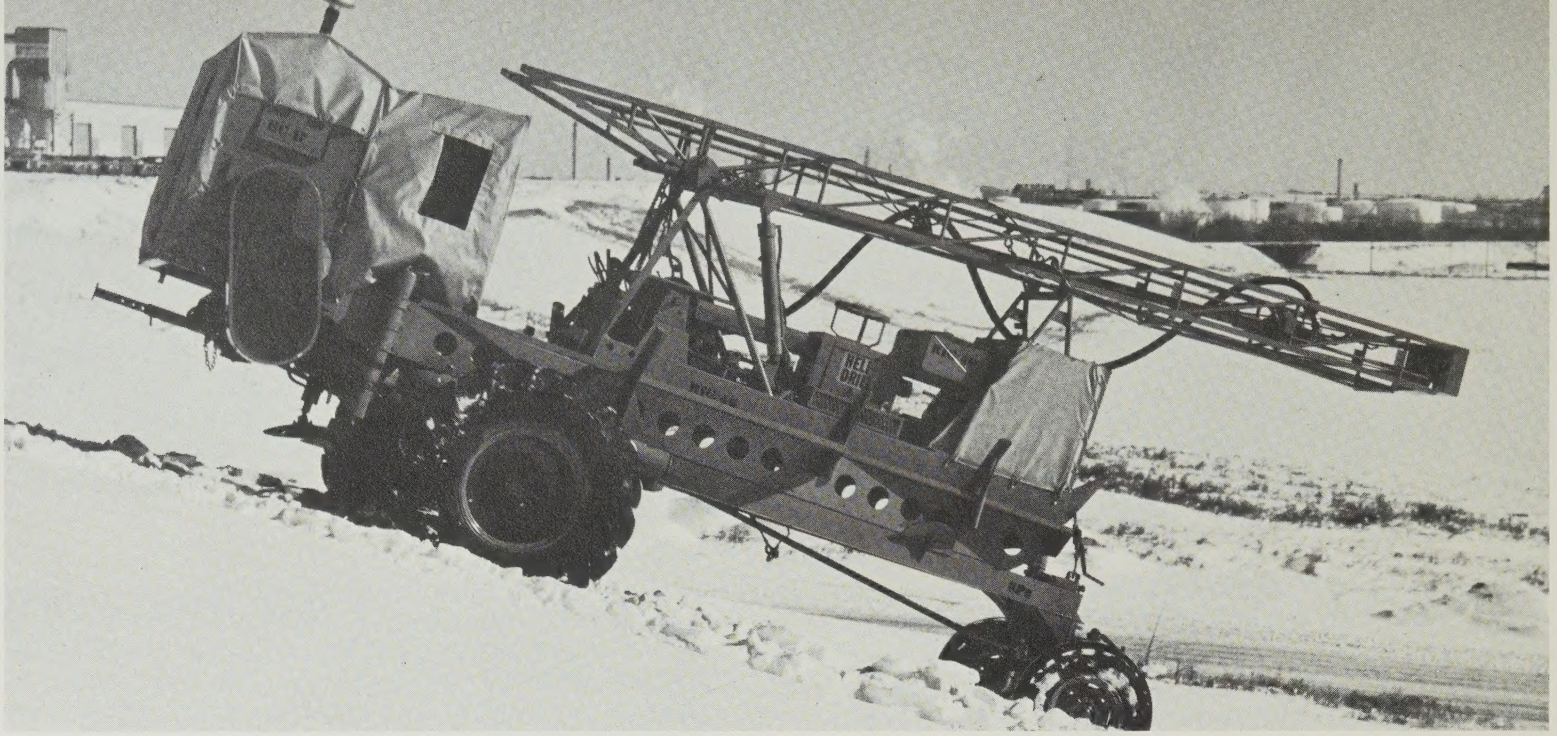
In order to consolidate the total company operations, it is planned to relocate the Head Office of Kenting in Calgary.

Both of these changes will further strengthen Kenting's management capability.

In closing your directors wish to express sincere thanks to all the staff in the various divisions for their loyal support throughout the past year.

D. N. Kendall

D. N. KENDALL, President.



Big Indian Drilling developed self-propelled HELI-DRILL.

DRILLING

Kenting now has three drilling divisions – Petrolia, Kenting Oilwell Drilling and Big Indian Drilling. All three had a successful 1969.

Petrolia - Deep Oil and Gas Well Drilling

Petrolia operated its six deep rigs in Quebec, Alberta and Northeast British Columbia. A high level of trouble free activity in the Strachan-Ricinus area of Alberta, where Petrolia has its two largest rigs operating, contributed to better earnings for this division in 1969.

Market conditions indicate a continuing high level of activity for Petrolia in 1970.

Kenting Oilwell Drilling - Shallow Oil and Gas Well Drilling

This shallow drilling division was set up with two rigs from Petrolia, two from Big Indian and two were added later.

In its first year the division's rigs had a high activity level. Rigs were operated in Alberta, Saskatchewan and a 40 well program was completed in Ontario.

The outlook for total activity is mixed. The exploration focus on the Arctic and the Benson White Paper both detract from this division's activity sources. On the other hand the increasing demand in the United States for Canadian oil and gas could stimulate development drilling activity.

Big Indian - Seismic and Mining Drilling

The major exploration activity at Prudhoe Bay created a surge of activity for the HELI-DRILL division. This usage further enhanced the importance of this equipment, and the heli-portable seismic technique for Arctic exploration. Big Indian techniques were in demand because logistics and timing prevented the necessary information being acquired by other methods.

Several important HELI - DRILL modifications were also made during the year. The completely new Hydraulic HELI-DRILL has double the power, new versatility including regular diamond drilling and percussion drilling, and has more Canadian content. Another development, the self-propelled HELI-DRILL was introduced with a prototype model in October, and quickly showed a capability in excess of design requirements. Industry response has been most encouraging.

The outlook for HELI-DRILL activity in the Arctic is very encouraging, both because of the logistic advantages and because surface exploration vehicles scar the landscape.

Big Indian's mining division increased its sales volume substantially in 1969. The acceptance of the new "Sure-Core" sampling technique – a Big Indian marketing exclusive, resulted in improved opportunities. Projects included drilling programs in Chile, S.A., in the Arctic Islands and throughout Western Canada and the Yukon. Additional equipment was added to this division.

A new drilling rig was designed and built by Big Indian to fill a requirement for mining and groundwater drilling, when its two shallow rigs were transferred to the new Kenting Oilwell Drilling division. This rig represents an important addition to the company's capability.

Big Indian has long been recognized as innovators and developers of equipment. This capability is evidenced in Project 1096, a joint program between Big Indian and the Alberta Department of Industry. This project involves the building of a prototype rotary drilling rig which features some novel design changes, the first in nearly 20 years.

Several patent applications are being made in connection with this development. Field tests are scheduled for June 1970.

Big Indian's outlook for 1970 is encouraging. The division has both the equipment and experience to service the extensive petroleum exploration in the Arctic, and mineral exploration in British Columbia and the Yukon.

MINING EXPLORATION

Kenting's mining exploration division was divided into eastern and western operating divisions during 1969.

Kenting Earth Sciences - Western (Formerly Huntec)

The division's main activities were a major Arctic ice and land gravity survey and a large mineral exploration project on Baffin Island for King Resources.

A school for training field personnel was organized. This broadened the capability of a number of Huntec, Kenting Petroleum Geophysics and Pallister people. The result should be an expansion of services to clients.

In conjunction with Klondike Helicopters, a Vancouver office has been opened to increase exposure in the British Columbia-Yukon mineral industry.

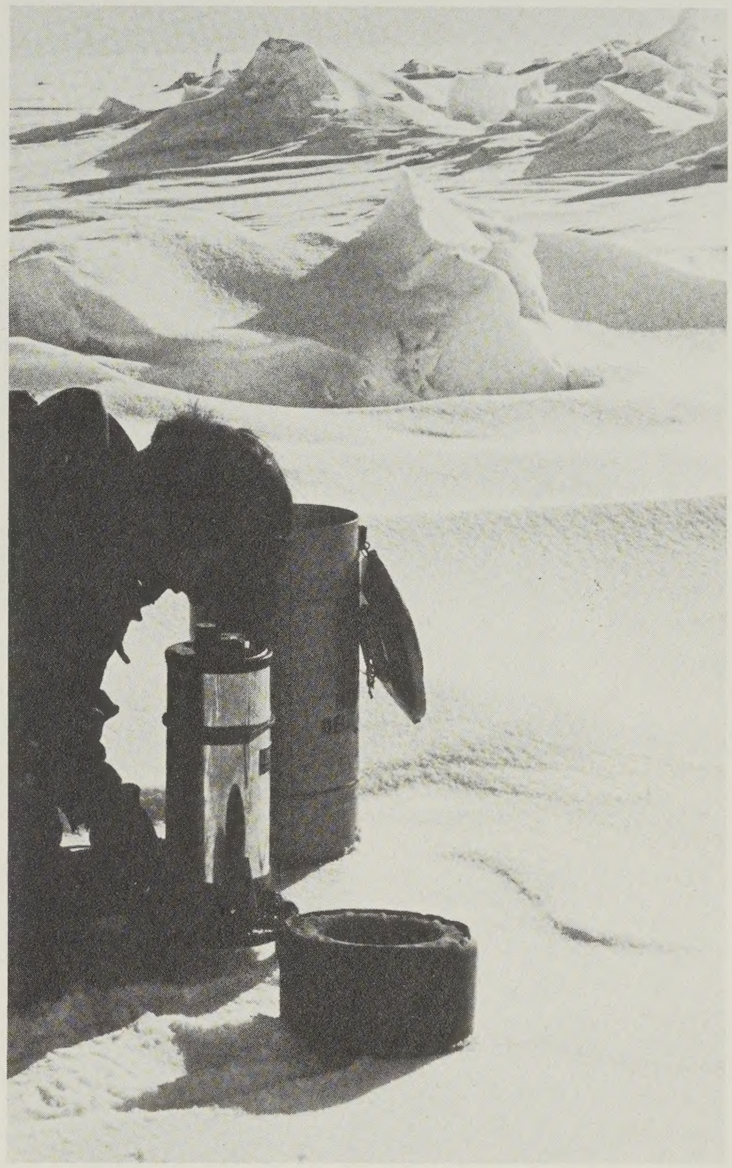
The 1970 outlook is encouraging with all of the division's capacity already committed for the coming season. Company assignments include seven gravity surveys in the Arctic and one in Paraguay. Services are also committed to mining and mineral exploration companies in British Columbia and the Yukon.

Kenting Earth Sciences - Eastern (Formerly Huntec)

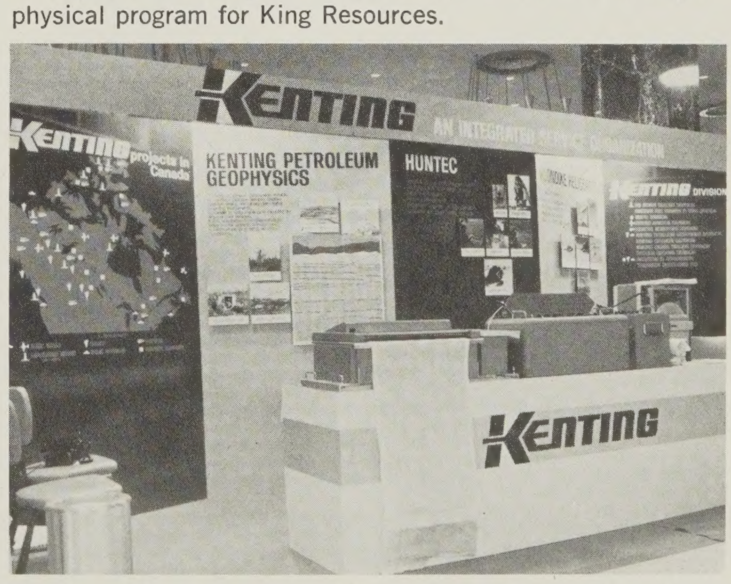
In September the division began a comprehensive exploration program in Honduras which could run for three years.

Land seismic surveys in Guyana were commenced in June and are still underway. Large marine seismic projects were conducted in Lake Erie, Lake Huron, Malaysia and Africa.

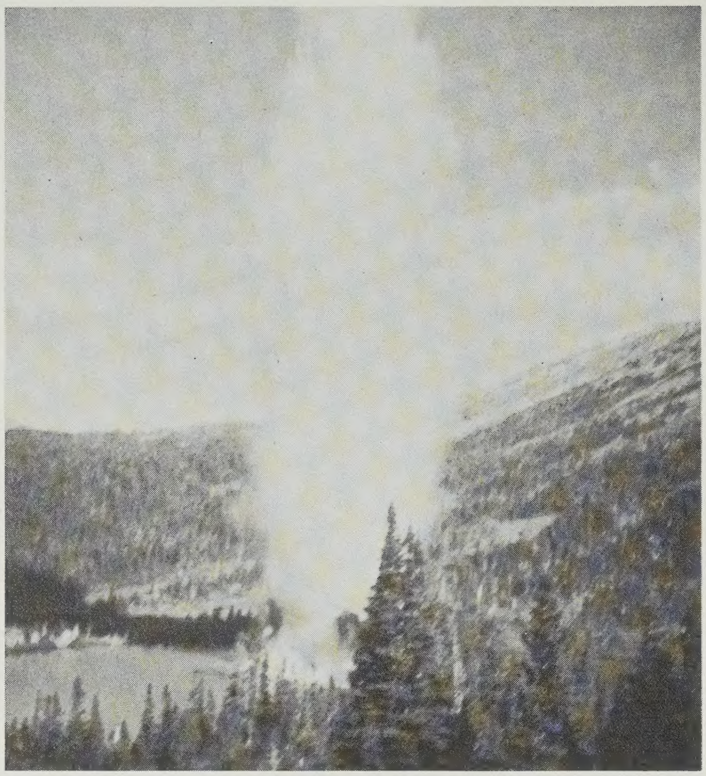
In 1970 this division expects to pursue expansion of business in the mining industry including the provision of airborne geophysical service. Another objective is to integrate more completely into Kenting's total exploration service concept.



Huntec (now Kenting Earth Sciences), conducted Arctic geophysical program for King Resources.



Kenting participated in Society of Exploration Geophysicists Convention.



Kenting Petroleum Geophysics performed seismic exploration in Northern Canada.

PETROLEUM EXPLORATION

Pallister and Associates

Operation Geoquest was completed during the spring and work was then commenced on Operation Arcticquest, a group exploration venture in which 27 oil companies are participating. Among the contractors performing the surveys were Kenting Petroleum Geophysics, Klondike Helicopters and Huntec. The subsequent oil discovery at Atkinson Point in the center of the Arcticquest area indicated the choice of the participation program was judicious. In addition to the subscription programs, deep and shallow water seismic surveys were conducted exclusively for numerous clients within the same area.

A third geological/geophysical exploration survey – Operation Polarquest – covering an area of some 350,000 square miles in the Canadian Arctic Islands, was proposed to the petroleum industry. Forty-one companies have subscribed to this program, which will take place in the summer and fall of 1970. As an initial stage of Polarquest, men and equipment were aboard the ice breaker John A. MacDonald to record data in conjunction with the historic voyage of the Manhattan through the Northwest Passage. From this feasibility study, it is expected that new designs for obtaining seismic data in ice-infested areas will be developed.

Kenting Petroleum Geophysics

The principal activity of this division in 1969 was participation in Operations Geoquest and Arcticquest. During the freeze-up conditions early in 1969, geophysical crews completed the Geoquest land seismograph programs in the Northwest Territories.

During the summer some 400 miles of shallow water marine recording was carried out in the Mackenzie Delta and in the Beaufort Sea in spite of adverse weather conditions.

This included the 225 mile program for Arcticquest, the balance being private contracts. During the course of one of these private programs some experimentation was carried out using a non-dynamite marine seismic source which eliminates harm to marine life.

After completing a series of winter projects in the Norman Wells area, Kenting's track mounted seismic equipment was barged down the Mackenzie River to Inuvik, where the Petroleum Geophysics division and Big Indian Drilling set up a year-round base.

During the fall, a seismic crew assisted by Klondike Helicopters was mobilized to conduct long range refraction operations over rugged mountainous terrain in North-eastern British Columbia.

The division also contracted reflection crews in Central and Western Alberta and in Northeastern British Columbia.

AIR TRANSPORTATION AND SURVEY

Klondike Helicopters

The Arctic oil activity brought Klondike a very high volume in 1969. Helicopters were active on the North Slope of Alaska and in the Canadian Arctic for King Resources and Panarctic, two of the larger permit holders.

Other equipment helped in the search for minerals and fought forest fires in such widely spread areas as the Yukon, Northwest Territories, Northern British Columbia and Alberta, the Canadian Shield and Labrador.

The aerial survey work was continued in Guyana and a machine is still leased to Station CFRB in Toronto.

A continual upgrading of the fleet to turbine power has been carried out in 1969. In 1970 Klondike will operate 10 turbine helicopters and 18 powered by reciprocating engines.

The 1970 prospects are encouraging. In addition to the usual activity, equipment will be used in the Arctic in the Atkinson Point area, in the Central Arctic on a Huntec program, and on Mackenzie King Island.

Fixed Wing Aviation

One of Kenting's most interesting 1969 activities was flying ice reconnaissance support for the S.S. Manhattan. The Kenting DC 4's which are under contract to the Department of Transport Meteorological Branch were used to provide tactical assistance

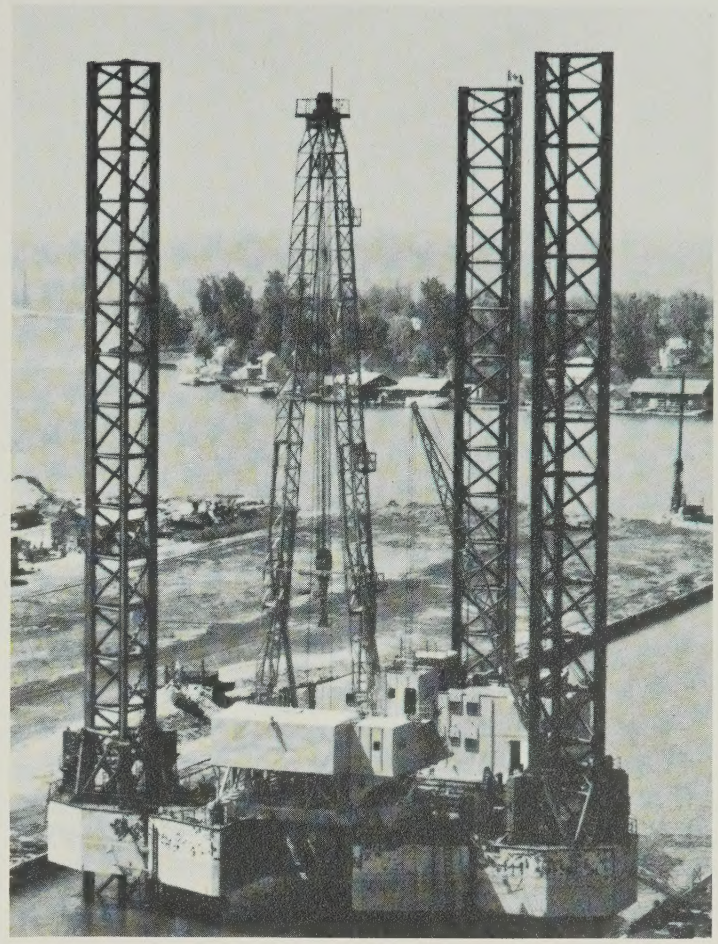
for this epic voyage. They were able to perform this service by extending their routine service for the Department of Transport. (Meanwhile Kenting geophysicists were aboard the ice breaker John A. MacDonald studying ice conditions for petroleum exploration purposes).

Kenting also continued to provide water bombers to Chile for fighting forest fires. The same service was also carried out in the South of France, Ontario, Saskatchewan and Alberta.

Aerial survey aircraft were provided to a number of aerial survey companies throughout 1969. The company's B 17 conducted aerial surveys in Western Canada.

The executive charter market, after experiencing the effects of tight money, appears to be on the upward trend once more with an increase in utilization.

The outlook for 1970 indicates steady growth for fixed wing aviation activities. A number of substantial contracts are being actively pursued. Renewals have already been obtained with Geoterrex, the Republic of France (for ferrying aircraft), the Government of Chile (for water bombers), and Dow Chemical for a two year exclusive operation of a Beechcraft Queen Air.



Kenting Offshore No. 1 at launching.

OILFIELD CONSTRUCTION AND PIPELINING

Canadian Well Services and Tank

In 1969 Canadian Well negotiated the largest single pipeline contract in its history. Built in the Ferrier field of Alberta for Amerada Petroleums the line consisted of 210,000 feet of ditch and 439,000 feet of 2" through 10" insulated gas gathering line.

The Projects department, formed in late 1968, was involved in several sizeable contracts, including the installation for Husky Pipeline of four pumping stations totalling 3,000 horsepower.

Total sales volume in 1969 was slightly higher than forecast. Much of the division's effort during the year was directed to the improvement of job costing methods and controls in an effort to increase profit margins.

The sales outlook for 1970 is encouraging with increases expected in pipelining and natural gas plant construction. Profit margins should be increased if refined bidding procedures and cost controls are successful.

Kenwell Engineering Ltd.

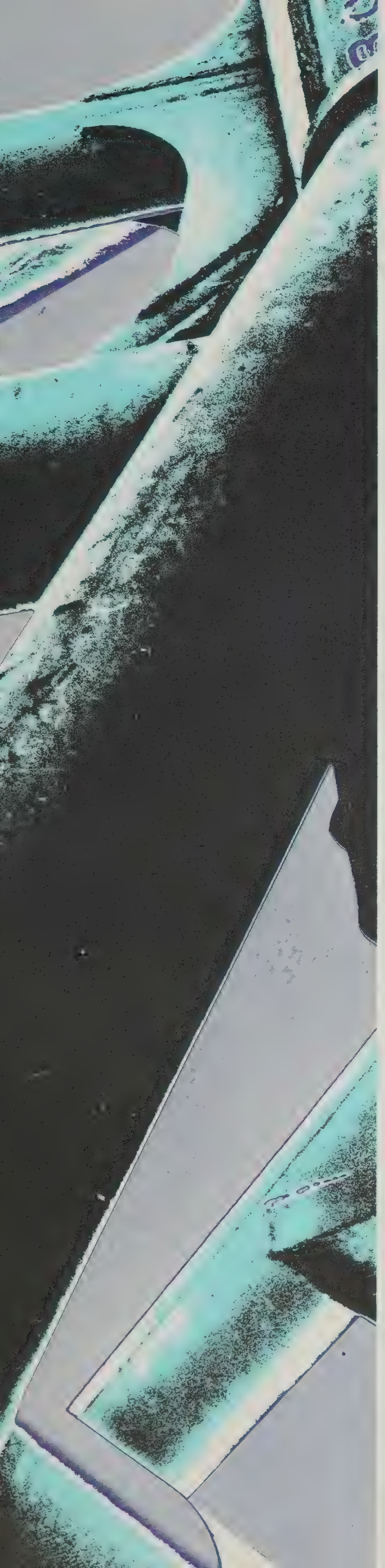
Kenwell was formed in late 1969 to offer a complete drilling and production management service to the petroleum industry. This service replaces the service previously provided by Tamarack Petroleums.

Canadian Well Services built pipeline in rugged terrain.

KENTING OFFSHORE

In 1969 the company built an offshore rig to provide drilling service in the Great Lakes.

Unfortunately, due to unforeseen technical problems, the rig did not establish a firm footing in the assigned location. The rig has been moved to Africa for operations there. For further data see Note 4 to Financial Statements, and the president's letter to the shareholders on page 2.



PRICE WATERHOUSE & CO.

Calgary 1, Alberta
February 25, 1970

except as to Notes 2
and 16 as to which
the date is March 24, 1970.

AUDITORS' REPORT

To the Shareholders of
KENTING LIMITED:

We have examined the consolidated balance sheet of Kenting Limited and subsidiaries as at December 31, 1969 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination of the financial statements of Kenting Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

Chartered Accountants.

KENTING LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

	As at December 31 1969	1968
CURRENT		
Cash	$ 706,230	$ 307,443
Temporary investments (Note 2)	746,803	75,974
Accounts receivable	4,433,185	3,225,784
Notes receivable	130,000	—
Inventories (Note 3)	1,242,969	2,309,364
Prepaid expenses	173,312	152,405
	7,432,499	6,070,970
DEFERRED RECEIVABLE	—	393,757
INVESTMENTS IN OTHER COMPANIES, at cost	35,647	314,801
PROPERTY AND EQUIPMENT, at cost (Note 5)	14,960,843	10,906,800
Less — Accumulated depreciation and depletion	4,992,747	4,246,142
	9,968,096	6,660,658
DEFERRED CHARGES, at net cost less amortization (Note 12)		
Research and engineering	270,882	261,407
Other	35,992	39,160
	306,874	300,567
GOODWILL — Unamortized cost of investment in subsidiaries in excess of book value at date of acquisition (Note 6)	203,006	231,289
OTHER ASSETS, at cost	22,676	73,865
	$17,968,798	$14,045,907

Approved on behalf of the Board:

D. N. KENDALL, Director

J. W. STRATH, Director

CONSOLIDATED BALANCE SHEET

LIABILITIES	As at December 31 1969	1968
CURRENT		
Bank advances, secured (Note 15)	$ 984,585	$ 791,499
Accounts payable and accrued	3,658,537	2,855,490
Notes payable, secured by equipment	235,998	130,778
Loan from director	100,000	—
Income taxes payable	98,898	159,230
Long term debt due within one year	2,539,293	964,617
	7,617,311	4,901,614
Current portion of deferred income taxes (Note 7)	55,703	83,213
	7,673,014	4,984,827
PRODUCTION BANK LOAN	—	393,757
LONG TERM DEBT (Note 9)	4,049,251	3,316,836
DEFERRED INCOME TAXES (Note 7)	1,945,599	1,479,335
	13,667,864	10,174,755
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Notes 8 and 10):		
142,000 6% cumulative redeemable convertible Class A preferred shares of a par value of $12.50 each (Authorized — 142,000 shares)	1,775,000	1,775,000
12,000 6% cumulative redeemable convertible Class B preferred shares of a par value of $30.00 each (Authorized — 12,000 shares)	360,000	360,000
9,000 6% cumulative redeemable convertible Class C preferred shares first series of a par value of $33.50 each (Authorized — 150,000 Class C preferred shares issuable in series)	301,500	301,500
325,793 common shares of a par value of 50c each (Authorized — 1,000,000 shares)	162,896	158,756
PAID IN SURPLUS (Note 11)	—	54,237
RETAINED EARNINGS (Note 10)	1,701,538	1,221,659
	4,300,934	3,871,152
COMMITMENTS AND CONTINGENT LIABILITIES (Note 12)		
	$17,968,798	$14,045,907

CONSOLIDATED STATEMENT OF INCOME

	For the year ended December 31, 1969	1968
Revenue	$21,418,978	$13,855,607
Costs of operating and sales	16,578,950	10,157,620
Administration and general	2,602,929	1,937,361
Interest on long term debt	501,268	277,182
Provision for depreciation and depletion	915,205	676,025
Amortization of deferred charges	131,667	62,291
Profit on disposal of property and equipment	(10,358)	(52,106)
	20,719,661	13,058,373
Operating income	699,317	797,234
Provision for income taxes:		
Current (less recovery of $126,836)	28,695	109,466
Deferred (Note 7)	449,555	229,533
Deferred — credited to Goodwill	—	77,207
	478,250	416,206
Income before extraordinary items	221,067	381,028
Extraordinary items:		
Profit on disposal of investments (Note 14)	426,556	82,629
Depreciation adjustment, net of deferred income taxes (Note 5)	(25,750)	26,426
Profit on disposal of subsidiary company and oil properties, net of deferred income taxes (Note 14)	21,448	—
	422,254	109,055
Net income for year	$ 643,321	$ 490,083

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	For the year ended December 31, 1969	1968
Balance, beginning of year	$1,221,659	$ 950,374
Add — Net income for year	643,321	490,083
	1,864,980	1,440,457
Less — Dividends paid:		
Class A Preferred	53,250	106,500
Class B Preferred	10,800	16,268
Class C Preferred	—	3,418
Common	—	92,612
	64,050	218,798
Charge with respect to company acquired in 1968 (Note 9)	99,392	—
	163,442	218,798
Balance, end of year	$1,701,538	$1,221,659

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	For the year ended December 31, 1969	1968
Source of funds:		
Revenue	$21,418,978	$13,855,607
Less — Costs of operating and sales, administration and general expenses, long term debt interest and current taxes	19,711,842	12,481,629
Funds from operations	1,707,136	1,373,978
Long term borrowing	3,133,060	2,416,513
Proceeds from property and equipment disposals	337,014	378,480
Proceeds from sale of subsidiary company and oil and gas properties	385,500	—
Disposal and reclassification of investments	705,708	182,390
Sale of common shares for cash	69,388	41,288
Other	47,131	(17,576)
Deferred receivable	393,757	356,243
	$ 6,778,694	$ 4,731,316
Application of funds:		
Additions to property and equipment	$ 4,917,559	$ 1,578,548
Deferred charges	137,974	69,453
Dividends paid	64,050	218,798
Decrease in long term debt	2,400,645	1,274,749
Investment in subsidiaries	218,877	360,198
Investment in other companies	—	76,177
Production bank loan	393,757	356,243
	8,132,862	3,934,166
Increase (Decrease) in working capital, excluding current portion of deferred income taxes	(1,354,168)	797,150
	$ 6,778,694	$ 4,731,316

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1969

NOTE 1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of the Company's subsidiaries all of which are wholly owned.

NOTE 2. TEMPORARY INVESTMENTS:

	Bank deposit receipts		$200,000
30,325	Shares of CDP Computer Data Processors Ltd., at cost (Quoted market value December 31, 1969 — $189,531; Quoted Market value March 24, 1970 — $159,206)		83,841
257,000	Shares of Silver Arrow Explorations Ltd. (N.P.L.), at estimated realizable value (Quoted market value December 31, 1969 — $526,850; Quoted market value, March 24, 1970 — $385,500)	(i)	385,500
1,350	Preferred shares of Sheamar Equipment Ltd., at cost	(ii)	67,500
	Other		9,962
			$746,803

(i) In December 1969, the Company acquired 257,000 shares of Silver Arrow Explorations Ltd. (N.P.L.) in exchange for the shares of a subsidiary company, Tamarack Petroleums Ltd., and the majority of the Company's oil and natural gas properties. The Silver Arrow shares are subject to an escrow agreement which provides that approximately 100,000 shares may be released in January 1970 and the balance of shares in monthly instalments. All shares are to be released by September 1970.

(ii) Pursuant to prior agreement the Company has elected to sell the preferred shares of Sheamar Equipment Ltd. for a cash consideration of $67,500.

NOTE 3. INVENTORIES:

		1969	1968
Materials and supplies, at cost		$ 854,389	$ 884,627
Work in process, at cost		55,022	89,230
Work and contracts in progress, at cost less billings to date	(i)	228,269	1,243,145
Finished goods, at lower of cost or net realizable value		105,289	92,362
		$1,242,969	$2,309,364

(i) Costs incurred to December 31, 1969	$1,740,991
Contract billings to December 31, 1969	1,512,722
	$ 228,269

Included in this account are geophysical/geological projects ("Arcticquest, Polarquest") initiated by the Company in 1969. In the opinion of management the costs incurred to December 31, 1969, plus the costs of completion, will be recovered by December 31, 1970 from presently contracted but unearned revenue. While these surveys and the 1968-69 survey ("Geoquest") were initiated and partially financed through the participation of a number of oil companies who received and are to receive the technical data, the Company has retained proprietory rights to the Geoquest data, certain of Arcticquest data and sales commission rights to the remaining Arcticquest and to the Polarquest data.

NOTE 4. KENTING OFFSHORE DIVISION:

During 1968 the Company entered into contracts for the construction of a moveable offshore drilling rig. Construction was completed in 1969. The initial drilling contract (Lake Erie) was terminated at an early stage because of unstable lake bottom conditions.

A one year contract was then obtained for drilling in the Gulf of Suez (an area of political unrest) and the rig is presently being towed to Mogadiscio, Somalia. This contract provides that the client must furnish war risk and confiscation insurance acceptable to the Company and its bank before the rig leaves Mogadiscio bound for the first drilling location in the Gulf of Suez. Such insurance has not yet been furnished. Certain other terms of the contract provide for standby fees and for cancellation fees should the client cancel the contract.

Costs relating to the Lake Erie operations together with all administrative and financing costs have been charged to operations; these costs amounted to approximately $540,000.

The net costs of construction, mobilization, towing and insurance incurred to December 31, 1969 (after deducting a federal Government subsidy of approximately $750,000 and the portion of mobilization and towing costs paid for by the client) amount to approximately $3.5 million of which approximately $100,000 is carried as work in progress; the balance of approximately $3.4 million is included in fixed assets.

NOTE 5. PROPERTY AND EQUIPMENT:

	1969	1968
Aircraft and helicopter divisions	$ 4,384,106	$ 3,998,290
Drilling and offshore divisions (Note 4)	7,369,639	3,688,687
Seismic and instrument divisions	2,368,348	1,920,438
Oilfield construction division	772,610	815,789
Oil and gas properties (Notes 2 and 14)	66,140	483,596
	14,960,843	10,906,800
Less—		
Accumulated depreciation	4,961,165	4,156,508
Accumulated depletion	31,582	89,634
	4,992,747	4,246,142
	$ 9,968,096	$ 6,660,658

Depreciation of property and equipment is provided at rates which will amortize cost, less estimated salvage values, over the estimated service lives of the respective assets. The offshore rig has not commenced drilling operations and accordingly no depreciation has been provided. As a result of continuing the policy of conforming depreciation policies within the Company and subsidiaries an adjustment was made to accumulated depreciation. This adjustment less applicable deferred income taxes has been shown in the statement of income as an extraordinary item.

NOTE 6. GOODWILL:

In the opinion of management, there is no present indication that the balance of the intangible asset, "Goodwill", has a determinable life or existence and accordingly it has not been amortized (except to the extent of a 1968 income tax reduction of $77,207 which resulted from carrying forward pre-acquisition losses of a subsidiary).

NOTE 7. INCOME TAXES:

Under the provisions of the Income Tax Act the companies are entitled, for tax purposes, to claim depreciation and other costs in excess of the amounts recorded in the accounts and to deduct tax loss carry-forwards. As it is the policy of the companies to claim maximum tax allowances, the net amounts claimed for tax purposes are in excess of the related charges to earnings.

With the exception of the subsidiary, Kenting Exploration Services Limited, deferred income taxes have been provided on this accumulated excess and are applicable to those future years when allowances for income tax purposes will be less than the related amounts charged to earnings. The portion of deferred income taxes ($55,703) included in current liabilities relates to current asset accounts the amounts of which were claimed for income tax purposes.

No provision has been made for possible future tax benefits arising from loss carry-forwards of Kenting Exploration Services Limited which, at December 31, 1969, amounted to approximately $300,000.

NOTE 8. CAPITAL STOCK:

During the year 8,281 common shares were issued under warrants and options for $69,388. Share capital was credited with $4,140 and paid in surplus was credited with $65,248. The following warrants and options were outstanding as at December 31, 1969:

Warrants:

45,618 entitling holders to purchase one common share for each warrant at $8.50 per share at the rate of 9,618 shares to June 30, 1970 and 12,000 shares per year during the period July 1, 1970 to June 30, 1973 on a non-cumulative basis.

3,200 entitling holders to purchase one common share for each warrant at $20.00 per share during the period from December 1, 1969 to November 30, 1973 at the rate of 800 shares per year on a non-cumulative basis.

Employee Options:

11,800 common shares at prices ranging from $15.75 to $26.10 per share, exercisable mainly to 1974 at the rate of one fifth each year on a cumulative basis. Options for 6,000 of these common shares are held by directors who are also employees.

The Company has reserved 261,118 common shares for the possible conversion of preferred shares, conversion of the sinking fund debentures Series A and the exercise of outstanding warrants and options.

NOTE 9. LONG TERM DEBT:

		1969	1968
7½% Convertible sinking fund debentures	(i)	$1,250,000	$1,250,000
8% Debenture, repayable in monthly instalments of $15,800 (secured by fixed and floating charge on aircraft)		244,000	433,600
Term bank loan, repayable in monthly and quarterly instalments aggregating $300,000 per annum together with interest at prime rate plus from 1½% to 2%, (secured by $1,100,000 demand fixed and floating charge debenture over all assets)		937,500	587,500
Non-interest bearing advance under contract, repayable in monthly instalments of $5,656		84,519	151,496
3% Debenture, due December 1981, but agreed to be repaid by July 1972 (unsecured)		140,000	140,000
7% Note, repayable in monthly instalments of $5,076 (secured by chattel mortgage on a drilling rig)		110,278	171,964
6% Note, repayable $80,000 in January 1970 (unsecured)		—	80,000
Mortgages, repayable in monthly instalments of approximately $10,000 at various interest rates not exceeding 10% (secured by land mortgages and retention of title to equipment)		164,896	303,814
7½% to 12¼% Term bank loans, repayable in monthly instalments of $12,083 (secured by general assignment of accounts receivable, demand debenture and fixed and floating charge)		482,860	769,832
Sundry notes, conditional sales agreements, etc. repayable in monthly instalments of approximately $4,700 at various interest rates to 12% (secured by retention of title to certain aircraft and equipment)		79,873	200,429
7% Promissory note, repayable in annual instalments of $25,000 . .		100,000	125,000
8% Notes repayable July 1974		67,818	67,818
Term bank loan, repayable in four monthly instalments of $50,000 to May, 1970 and in monthly instalments of $100,000 thereafter together with interest at prime rate plus 1¼%, (secured by a fixed and floating charge mortgage and debenture on certain assets including the offshore drilling rig, assignment of the offshore contract proceeds, insurance and accounts receivable)		2,200,000	—
9½% Advance on drilling contract, repayable out of offshore contract drilling revenue to a maximum of $50,000 per month (estimated current portion $400,000)		511,800	—
Amounts due to vendors of Big Indian Drilling Co. Ltd., payable $75,000 in 1970 and 1971 and $65,000 in 1972	(ii)	215,000	—
		6,588,544	4,281,453
Less — Payments due within one year included in current liabilities		2,539,293	964,617
Long term debt due beyond one year		$4,049,251	$3,316,836

(i) 7½% Convertible sinking fund debentures Series A, due May 15, 1980, interest payable semi-annually, requiring sinking fund payments of $100,000 annually from 1970 to 1979 inclusive. Each $1,000 principal amount is convertible into 30 common shares to May 15, 1973 and thereafter into 25 common shares to May 15, 1978, subject to anti-dilution terms and is redeemable at a reducing premium otherwise than out of the sinking fund after May 15, 1972. Under the terms of the Trust Indenture the debentures are a direct obligation of the Company but are not secured by any mortgage, pledge or charge. Covenants contained in the debenture preclude certain transactions (including the issuance of long term debt, the payment of dividends, the sale of certain assets and the reduction of capital stock) unless specific conditions are met.

(ii) Under the terms of the 1968 Big Indian Drilling Co. Ltd. share exchange, which was accounted for on a pooling of interests basis, the Company agreed to pay up to an additional $215,000 cash to the vendors should earnings of Big Indian reach certain levels (such levels being in excess of historical earnings) during the period to April 30, 1971. Earnings for 1969 approached the required total level and accordingly provision has been made for this payment by charging paid in surplus with $119,485 and retained earnings with $95,515. Acquisition costs of $3,877 were also charged to retained earnings.

NOTE 10. DIVIDENDS:

Cumulative preferred dividends were paid to December 31, 1968, but were not fully paid in 1969 and are in arrears in the amount of $82,140 as at December 31, 1969.

Under the terms of issue of preferred shares payment of dividends, except stock dividends, on the common shares is subject to certain restrictions. In accordance with these terms the amount available for payment of dividends on common stock is not less than the retained earnings shown in the consolidated balance sheet as at December 31, 1969. Under the terms of the 7½% Convertible sinking fund debentures cash dividends may not be paid unless working capital exceeds $1,000,000 after such payment.

NOTE 11. PAID IN SURPLUS:

	1969	1968
Balance, beginning of year	$ 54,237	$ —
Add — Premium on issue of common shares (Note 8)	65,248	355,079
	119,485	355,079
Less — Charge with respect to company acquired in 1968 (Note 9)	119,485	—
— Elimination under pooling of interests	—	300,842
Balance, end of year	$ —	$ 54,237

NOTE 12. COMMITMENTS AND CONTINGENT LIABILITIES:

To December 31, 1969 the Company had received or expected to receive various instrument development grants totalling approximately $126,000 from the Federal Government. In the event that a commercially successful product is developed, the grants are repayable.

The Company has commitments under the following lease agreements:

	Annual Rentals	Expiry Dates
Jet Commander Aircraft	$145,456	1975
Jet Commander Aircraft	104,000	1970
Office building and land	19,500	1988
Office premises	32,000	1974
Trucks and vehicles	145,000	1971-72
Drilling equipment	64,800	1972
Drilling equipment	94,700	1973
Oilfield building and land	24,000	1980

The Company is contingently liable for the usual liabilities of contractors, indeterminate in amount, for completion of contracts (including the contract referred to in Note 4).

NOTE 13. REMUNERATION OF DIRECTORS AND OFFICERS:

Included in administrative expenses for 1969 is remuneration paid to directors, including senior officers, of $189,148 (1968-$219,621).

NOTE 14. EXTRAORDINARY ITEMS:

During the year the Company disposed of a further portion of its investment in CDP Computer Data Processors Ltd. and its minority interest in Foremost Developments Ltd. and realized a gain on sale of these investments of $426,556.

As outlined in Note 2, the Company disposed of its investment in its former subsidiary, Tamarack Petroleums Ltd. and the majority of the Company's oil and gas properties. The gain on sale less a provision for deferred income taxes amounted to $21,448.

NOTE 15. BANK ADVANCES:

The bank advances are secured by general assignment of accounts receivable and partially secured by a fixed and floating charge debenture.

NOTE 16. SUBSEQUENT EVENT:

The Company has offered to shareholders of record on March 17, 1970 the right to subscribe for one common share at $13.00 for each five common shares held. An underwriting commitment has been received whereby the underwriters have agreed to purchase any unsubscribed shares. This offering will result in the issue of approximately 66,000 additional shares. Estimated net proceeds to the Company will be approximately $800,000.

FIVE YEAR EARNINGS SUMMARY "POOLING OF INTERESTS"

The figures shown below have been restated from those previously reported to shareholders in 1967, 1966 and 1965 by accounting for subsidiaries (Boundary Drilling Ltd., Accurate Exploration Ltd., Foothills Aviation Limited and Big Indian Drilling Co. Ltd.) acquired through share exchanges on a "pooling of interests" basis (whereby the operations have been combined with those of Kenting Limited).

Certain subsidiaries had, prior to acquisition, tax loss carry forwards available which reduced taxable income in 1966 and 1965. These reductions have been shown as extraordinary items. For presentation purposes, other accounts have also been reclassified.

The weighted average number of common shares outstanding gives effect to common shares exchanged for subsidiaries combined on the "pooling of interests" basis. Earnings attributable to common shares have been determined after providing for prescribed dividends of $146,000 annually on the cumulative preferred shares. Dividends actually paid on the preferred shares were: 1967 – $3,210; 1968 – $126,186; 1969 – $64,050.

As indicated in Notes 8 and 16 to the financial statements, debentures and preferred shares can be converted into common shares, and warrants, options and rights may be exercised; this may result in dilution of earnings per share in the future.

	1969	1968	1967	1966	1965
Revenue	$21,419,000	13,856,000	9,855,000	8,643,000	7,356,000
Costs of operating and sales	16,579,000	10,158,000	6,785,000	5,870,000	4,896,000
Administration and general	2,603,000	1,937,000	1,126,000	915,000	707,000
Interest on long term debt	501,000	277,000	145,000	98,000	94,000
Current income taxes	29,000	110,000	76,000	379,000	310,000
	19,712,000	12,482,000	8,132,000	7,262,000	6,007,000
Cash flow from operations	1,707,000	1,374,000	1,723,000	1,381,000	1,349,000
Depreciation, depletion and amortization	1,047,000	738,000	613,000	572,000	580,000
Profit on disposal of property and equipment	(11,000)	(52,000)	(56,000)	(64,000)	(33,000)
Deferred income taxes	450,000	307,000	422,000	210,000	236,000
Portion of net income of pooled companies applicable to purchase	–	–	70,000	49,000	37,000
	1,486,000	993,000	1,049,000	767,000	820,000
Income before the following	221,000	381,000	674,000	614,000	529,000
Extraordinary income, net of applicable income taxes	422,000	109,000	68,000	(60,000)	(64,000)
Income Tax reduction	–	–	–	250,000	210,000
	422,000	109,000	68,000	190,000	146,000
Net income for the year	$ 643,000	490,000	742,000	804,000	675,000
Earnings attributable to each common share, (after providing for dividends on preferred shares of $146,000)					
On cash flow from operations	$ 4.83	3.97	5.50	4.79	5.15
Before extraordinary items and income tax reduction	$ .23	.76	1.84	1.81	1.64
On net income	$ 1.54	1.11	2.08	2.55	2.27
Weighted average number of common shares outstanding	323,044	309,585	286,823	257,912	233,500

FIVE YEAR EARNINGS SUMMARY

This summary sets out earnings figures as originally issued to shareholders in the respective years. The attached 'Five Year Earnings Summary – Pooling of Interests' restates earnings for subsequent subsidiary acquisitions.

	Current Year 1969	As Previously Reported to Shareholders (Presented in Conformity with 1969) 1968	1967	1966	1965
Revenue	$21,419,000	13,856,000	8,311,000	1,553,000	1,284,000
Costs of operating and sales	16,579,000	10,158,000	5,556,000	1,161,000	964,000
Administration and general	2,603,000	1,937,000	1,007,000	97,000	47,000
Interest on long term debt	501,000	277,000	141,000	30,000	23,000
Provision for depreciation, depletion and amortization	1,047,000	738,000	535,000	199,000	168,000
Profit on disposal of property and equipment	(11,000)	(52,000)	–	–	–
	20,719,000	13,058,000	7,239,000	1,487,000	1,202,000
Operating income	700,000	798,000	1,072,000	66,000	82,000
Provision for income taxes					
Current	29,000	110,000	70,000	8,000	14,000
Deferred	450,000	307,000	357,000	15,000	25,000
	479,000	417,000	427,000	23,000	39,000
Income before extraordinary (special) items	221,000	381,000	645,000	43,000	43,000
Extraordinary (special) income net of applicable income taxes	422,000	109,000	109,000	36,000	3,000
Income before the following deduction	643,000	490,000	754,000	79,000	46,000
Portion of net income of pooled companies applicable to purchase	–	–	70,000	–	–
Net income for the year	$ 643,000	490,000	684,000	79,000	46,000
Weighted average number of common shares outstanding	323,044	309,585	277,823	124,411	100,000
Net income attributable to each common share (after provision for preferred share dividends in 1969, 1968 and 1967)	$ 1.54	1.11	2.00	.63	.46
Common share dividends					
Per share	–	30c	30c	30c	30c
Aggregate	$ –	92,612	63,997	37,324	30,000
Class A Preferred share dividends					
Per share	37.5c	75c	2.2c	–	–
Aggregate	$ 53,250	106,500	3,210	–	–
Class B Preferred share dividends					
Per share	90c	1.36	–	–	–
Aggregate	$ 10,800	16,268	–	–	–
Class C Preferred share dividends					
Per share	–	38c	–	–	–
Aggregate	$ –	3,418	–	–	–

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INTERIM REPORT TO THE SHAREHOLDERS

FOR THE SIX-MONTH PERIOD ENDING JUNE 30, 1969

KENTING LIMITED

TO THE SHAREHOLDERS:

Net income for the six months ending June 30th, 1969 from all sources amounted to $361,944. Income from operations resulted in a loss of $2,112 after providing for current income taxes of $45,555 and deferred income taxes of $134,285. Operating revenue increased to $10,182,158 compared with $5,150,222 in the same period in 1968. After providing for deferred dividends the earnings per share from the net income amount to 90 cents.

During the six months period your company encountered two major problems. At the beginning of June 1969 the company's first offshore drilling rig was commissioned in Lake Erie and immediately proceeded to its drilling location to start a three year contract. Unfortunately unstable lake bottom conditions, which had not been predicted, made drilling operations impossible and the rig had to be withdrawn after two weeks. As a consequence an unbudgetted loss in excess of $150,000 has been absorbed at the end of June.

This offshore rig, worth $3,500,000 is a valuable asset of a type in demand. Negotiations are proceeding to put it to work elsewhere. At this point a letter of intent has been received which would give year round utilization on a satisfactory basis and it is expected that a formal contract will be signed in September providing for an immediate start to mobilize in the new area. There doubtless will be some additional loss from this rig in 1969 before it is off-set by income but in 1970 this unit should become a useful contributor to overall earnings.

The second problem relates to Operation Geoquest. Under Geoquest, entered into in 1968, the company undertook to carry out a major exploration program in the Northwest Territories to a sales value of about $2,000,000. The Federal Government agreed to allow this sum to be eligible for work credits. Your company owns the data and the work credits and the plan has been to sell the data with a like amount of work credits to interested oil companies. Up to the end of 1968 sales commitments close to $1,000,000 had been achieved, but at that time all work had not yet been completed.

The Geoquest operation was finally completed in the first half of 1969, as a consequence of which your company now owns all of the data plus work credits in the Northwest Territories to the value of $800,000. Unfortunately new sales commitments in the period up to June 30th, 1969 were rather nominal, perhaps due to the concentration of the petroleum industry in the Arctic. The company felt therefore that the unrecovered costs could no longer be carried at full cost as an inventory or deferred item to be recovered out of future sales, and thereby $140,000 in unrecovered costs were written off.

This was the position at the end of June 1969. Since then negotiations have proceeded for further sales of the data, as well as the work credits. Negotiations are in an advanced stage for the sale of a substantial amount of the data and work credits which should take place in September. Had the negotiations been completed at this time the June statement would have shown a before tax increase of $140,000 through this sum being carried as an inventory item as opposed to being written off. If this sale proceeds as contemplated this will contribute substantially to earnings, at which time the details will be released.

The other divisions of the company combined operated on an improved basis compared to 1968, resulting in pre-tax earnings of about $480,000, these being off-set by current and deferred income taxes and the loss items from Geoquest and the offshore rig as explained above to give the overall loss from operations of $2,112.

In 1967 your company obtained a small override in the Strachan-Ricinus area. This area has proven to be a gas field of major proportions, resulting in the override, which is carried at a nominal value in the company's assets, now having considerable worth. Studies are being made to determine the best method for the company to benefit from this asset.

The outlook for the balance of the year appears favourable and, with the new anticipated Geoquest sale, satisfactory earnings should be achieved. We already know that the months of July and August were good.

D. N. KENDALL
President

August 22nd, 1969.

NOTES TO CONSOLIDATED STATEMENT OF INCOME

Note 1. The statement for the six months ended June 30, 1968 includes the operations of Big Indian Drilling Co. Ltd., which have been accounted for on a "pooling of interests" basis as described in Note 1 to the Consolidated Financial Statements at December 31, 1968, included in the Annual Report to Shareholders.

Note 2. Earnings attributable to each Common Share after providing for dividends on Preferred Shares of $73,000.

	For the Six Months Ended June 30 1969	1968
Before deferred income taxes and special item	$ .18	$ .25
Before special item	(.23)	.01
On net income for period	.90	.16
Weighted average number of Common Shares outstanding	321,951	307,983

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KENTING LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

	For the Six Months Ended June 30 1969	1968
Operating revenue	$10,182,158	$5,150,222
Sundry income	55,307	50,299
	10,237,465	5,200,521
Costs and expenses:		
Costs of operating and sales	7,968,177	3,886,658
Administration and general	1,449,249	692,792
Interest on long term debt	186,131	112,139
Provision for current income taxes	45,555	79,071
	9,649,112	4,770,660
	588,353	429,861
Provision for depreciation and depletion	417,375	289,476
Amortization of deferred charges	46,374	21,918
Provision for deferred income taxes	134,285	74,775
Profit on disposal of property and equipment	(7,569)	(31,950)
	590,465	354,219
Income (loss) before special items	(2,112)	75,642
Special items:		
Profit on disposal of investments	364,056	4,692
Depreciation adjustment, net	–	43,340
	364,056	48,032
Net income for period	$ 361,944	$ 123,674

The above statement is unaudited.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	For the Six Months Ended June 30 1969	1968
Source of funds:		
Funds from operations	$ 588,353	$ 429,861
Provision for self-insurance	48,844	–
Long term borrowing	2,901,110	1,545,189
Proceeds from property and equipment disposals	99,181	228,797
Disposal of investments	448,668	–
Sale of common shares for cash	45,322	–
Deferred receivable	207,797	181,469
Other	25,402	(27,739)
	4,364,677	2,357,577
Decrease (increase) in working capital	201,791	(791,479)
	$ 4,566,468	$1,566,098
Application of funds:		
Additions to property and equipment	$ 3,167,853	$ 627,492
Deferred charges	35,843	–
Dividends paid	64,050	104,024
Decrease in long term debt	1,090,336	617,902
Investment in other companies	29,629	–
Production bank loan	178,757	156,250
Transfer deferred income taxes to current liabilities	–	60,430
	$ 4,566,468	$1,566,098

The above statement is unaudited.

See notes opposite